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DIRECTORATE OF INTELLIGENCE

9 October 1987

India-Japan: Growing Economic Relations [REDACTED]

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Summary

Indian Prime Minister Rajiv Gandhi made a short stopover in Tokyo on his way to the Commonwealth Conference in Vancouver. Japanese Prime Minister Nakasone offered India a \$200 million long-term, low-interest loan to purchase edible oils as a drought relief measure. The last minute scheduling and the short duration of the stopover made it unlikely that other major substantive issues were discussed. The visit is an indication of India's growing economic ties with Japan. Last year Japan passed the Soviet Union as India's second leading commercial partner after the United States and is likely to become the largest in a few years. [REDACTED]

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Gandhi might be receptive to discussions about using part of the Japanese loan for purchases of US edible oil. Although New Delhi normally would look first to Southeast Asian suppliers, these countries may not be able to meet the demand caused by the drought in much of southern Asia. [REDACTED]

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This memorandum was prepared by [REDACTED] Office of Near Eastern and South Asian Analysis [REDACTED]

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[REDACTED] Information as of 8 October 1987 was used in its preparation. Comments and queries may be addressed to the Chief, South Asia Division, NESA [REDACTED]

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India is looking increasingly to Japan for financial and technical resources to assist in economic development. New Delhi wants Tokyo to provide more concessionary economic assistance, direct investment, and tariff relief for its exports. During a five day visit to the subcontinent in August, Japanese Foreign Minister Kuranari affirmed Japan's intent to promote political dialogue and increase economic cooperation with India. New Delhi, however, is wary of new promises without more action on Tokyo's part. Many Indians believe that Japan is still primarily interested in quick sales of manufactured goods and will continue to require lengthy negotiations before buying more goods from India or engaging in business ventures that assist the Indian export program. [REDACTED]

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Prime Minister Gandhi has taken a personal hand in encouraging greater Japanese participation in his drive to modernize India's economy. He has sought Indian access to Japanese high technology, greater direct Japanese investments and exposure to Japanese entrepreneurial expertise. Gandhi would like the Japanese to compete more actively with the United States and Western Europe in selling high-technology items to India. [REDACTED]

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Foreign diplomats in New Delhi are predicting that Japan will become India's largest trading partner in a few years. The total value of trade between the two countries grew by more than 20 percent in 1986 to almost \$3.4 billion. Last year Japan passed the Soviet Union as Indian's second leading commercial trading partner after the United States. In volume terms, Japanese exports to India in 1986 increased by 100 percent from the level of 1980 and imports from India were up by almost 75 percent. [REDACTED]

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Direct Japanese investment and industrial collaboration also show signs of growth. Indo-Japanese joint ventures have increased from 34 in 1980 with \$1.4 million in Japanese investment to 108 in 1986 and \$12.6 million in investment. While total Japanese investment in India still remains small--less than \$100 million over the last 30 years--Japan has become the second largest foreign investor in India after the United States since the early 1980s. Japanese direct investment has been oriented toward the Indian domestic market, especially the automobile industry. India has been pushing for more new Japanese investment in export-oriented industries and joint ventures that would provide India assistance in selling goods to third countries. [REDACTED]

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We believe Tokyo's increased bilateral assistance also will facilitate even greater trade and investment. Japan has become India's largest Western bilateral aid donor and provided almost \$230 million in loans,

grants, and technical assistance in fiscal year 1986-87.* During his visit to India, Kuranari pledged a loan of \$470 million for the fiscal year that ends in March 1988 to finance nine industrial projects including the construction of a fertilizer factory, a telecommunications facility and an electric power plant. [REDACTED]

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Pitfalls in the Relationship

Opening the economy to more Japanese high technology is a mixed blessing for New Delhi. India's trade balance with Japan has gone from a \$100 million trade surplus as recently as 1980 to a \$800 million deficit in 1986 as a result of a surge in the volume and cost of imports. New Delhi's imports from Japan, including major purchases of capital goods for industrial modernization, have more than doubled in value since 1980. Another major component, however, is consumer goods, including parts used in assembling automobiles in India and consumer electronics equipment. Indian exports to Japan, which are still primarily raw materials (iron ore) and food (marine products), have grown by less than 30 percent in value. [REDACTED]

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We believe that several areas of tension persist between the two countries that are likely to hamper the growth in economic relations. Tokyo has shown little interest in opening its markets to a wider variety of Indian goods despite frequent requests from New Delhi. Japanese businesses continue to drag their feet on the indigenization of the supply line for Indo-Japanese joint ventures, thus aggravating India's balance of payments. New Delhi continues to stew over Japanese conditions that require lengthy negotiations for sales and aid agreements, leaving some doubt that all the aid promised this year will actually be dispersed. [REDACTED]

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Outlook and Implications for the United States

We believe Japan will continue to make major economic inroads in India. The prospect of a large new market opening as a result of liberalization efforts started by Indira Gandhi and continued by Rajiv has prompted a major influx of Japanese seeking new business ventures and markets for exports. Growing aid disbursements, even though not directly tied to sales of Japanese products, will facilitate Tokyo's activities, possibly at the expense of the United States. Japanese businessmen, however, are

* Japan might even be India's largest overall bilateral aid donor. Moscow has offered India about \$3.4 billion in economic assistance since 1985, but some of the funding is scheduled for long-term projects that have not been started. We have no reliable information on the actual level of disbursements. [REDACTED]

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apparently still unwilling to relinquish their autonomy in favor of an equitable partnership with a foreign partner. Many of their business ventures will serve primarily as markets for Japanese exports. [REDACTED]

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We expect Japanese companies to remain aggressive in sales of high technology items to India. The one exception is likely to be supercomputers; Japanese companies probably will wait until the first US supercomputer is delivered before resurfacing their own marketing efforts.

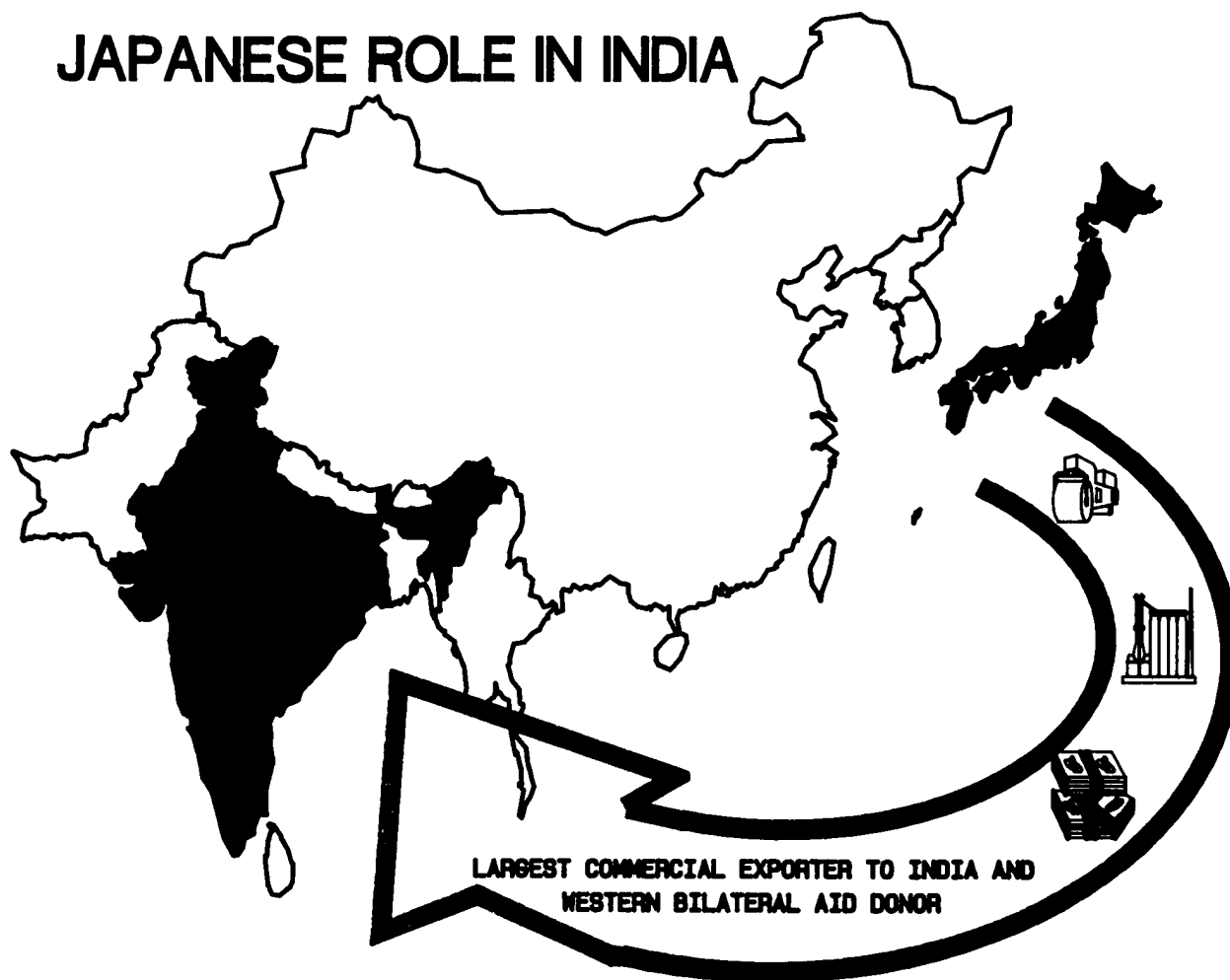
[REDACTED]

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India is wary of Japanese business and trade practices, but will seek a closer economic relationship with Japan. New Delhi will continue to accept a large trade deficit with Japan because much of it can be balanced by inflows of capital from Tokyo and a large share of the equipment imported is important for India's modernization program. Japan is also a politically palatable supplier of high technology equipment. Some Indians, for example, are expressing concern that their country has become too dependent on the United States for high technology equipment. [REDACTED]

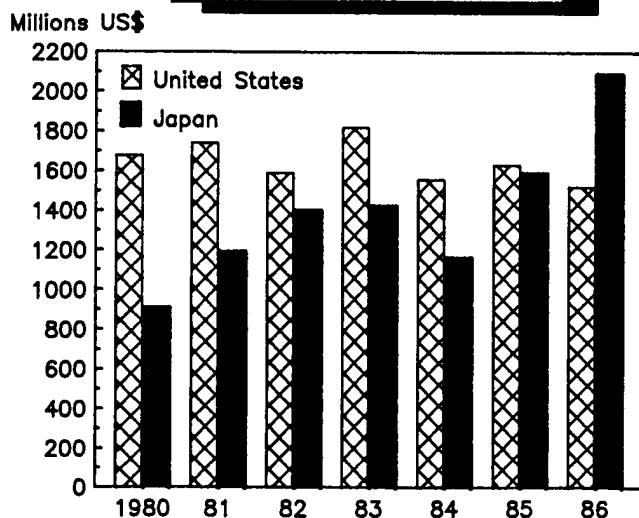
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JAPANESE ROLE IN INDIA

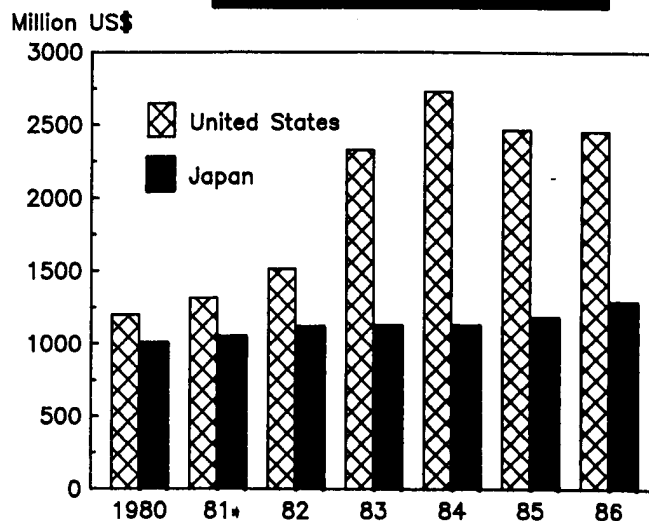


JAPANESE AND UNITED STATES TRADE WITH INDIA

EXPORTS TO INDIA



IMPORTS FROM INDIA



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SUBJECT: India-Japan: Growing Economic Relations

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